Registered No: SC304517

CAIRN UK HOLDINGS LIMITED

REPORT & FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2015

CAIRN UK HOLDINGS LIMITED

Directors:

James Smith
Simon Thomson

Secretary:

Duncan Wood

Independent Auditors:

PricewaterhouseCoopers LLP
141 Bothwell Street
Glasgow
G2 7EQ

Solicitors:

Shepherd and Wedderburn LLP
1 Exchange Crescent
Conference Square
Edinburgh
EH3 8UL

Registered Office:

50 Lothian Road
Edinburgh
EH3 9BY

Registered No:

SC304517

CAIRN UK HOLDINGS LIMITED

Directors' Report

The directors present their report and financial statements for the year ended 31 December 2015.

Business Review

This report has been prepared in accordance with the special provisions relating to small companies within Part 15 of the Companies Act 2006 and therefore does not prepare a strategic report.

During the year the Company made a loss before tax of US$313.3m (2014: US$165.2m) mainly due to an impairment of the available-for-sale financial asset of US$318.6m (2014: US$194.3m), offset by a dividend receivable of US$11.6m (2014: US$35.2m).

The Directors do not propose paying a dividend for the year ended 31 December 2015 (2014: nil).

The Company received an assessment order from the Indian Income Tax Department ("IITD") relating to the intra-group restructuring undertaken in 2006 prior to the IPO of Cairn India Limited ('CIL') in India, which cites a retrospective amendment to Indian tax law introduced in 2012. The assessment order is in the amount of INR 102billion (approximately US$1.6bn) plus interest back dated to 2007 totalling INR 188bn (approximately US$2.8bn). The total assets of the Company have a current value of US$477.5m and any recovery by the Indian authorities would be limited to such assets.

The Company strongly contests the basis of this attempt to retrospectively tax the group for an internal restructuring, see note 11 for further details. No provision has been made in the financial statements relating to this assessment.

Cairn has reviewed the impact of the restriction on the sale of Cairn India shares and the receipt of the assessment in determining the ability of the Company to continue to operate as a going concern and the directors are satisfied that preparing the financial statements on a going concern basis is appropriate.

Principal Risks and Uncertainties

The principal risks and uncertainties facing the Company derive from holding investments in CIL. An assessment order from the Indian Income Tax Department for INR 102billion (approximately US$1.6bn) has been received and the ability to sell the CIL shareholding has been restricted.

Accounting Policies

Cairn UK Holdings Limited applies accounting policies in line with the Cairn Energy PLC Group accounting policies. Significant accounting policies of the Group are included in the Cairn Energy PLC financial statements. Accounting policies relating to non-material items are available on the Cairn Energy PLC website.

Financial Instruments

For detail of the Company's financial risk management policy see note 8.

Directors

The directors of the company who were in office during the year and up to the date of signing the financial statements were:

James Smith
Simon Thomson

Statement of Directors' Responsibilities

The directors are responsible for preparing the Directors' Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial period. Under that law the directors have prepared the financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union. Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable International Financial Reporting Standards (IFRSs) as adopted by the European Union have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

CAIRN UK HOLDINGS LIMITED

Directors' Report (continued)

Disclosure of Information to Auditors
The directors of the Company who held office as at the date of this report confirm that, as far as they are aware, there is no relevant audit information of which the Company's auditors are unaware. In making this confirmation, the directors have taken appropriate steps to make themselves aware of the relevant audit information and that the Company's auditors are aware of this information.

The auditors, PricewaterhouseCoopers LLP, have indicated their willingness to continue in office, and a resolution that they be re-appointed will be presented at the annual general meeting.

By Order of the Board

Duncan Wood

Secretary
Duncan Wood
50 Lothian Road
Edinburgh EH3 9BY
29 March 2016

Independent auditors' report to the members of Cairn UK Holdings Limited

Report on the financial statements

Our opinion
In our opinion, Cairn UK Holdings Limited's financial statements (the "financial statements"):

- give a true and fair view of the state of the company's affairs as at 31 December 2015 and of its loss and cash flows for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

What we have audited
Cairn UK Holdings Limited's financial statements comprise:

- the balance sheet as at 31 December 2015;
- the income statement and statement of comprehensive income for the year then ended;
- the statement of cash flows for the year then ended;
- the statement of changes in equity for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

The financial reporting framework that has been applied in their preparation of the financial statements is applicable law and IFRSs as adopted by the European Union.

In applying the financial reporting framework, the directors have made a number of subjective judgements, for example in respect of significant accounting estimates. In making such estimates, they have made assumptions and considered future events.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion, the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Other matters on which we are required to report by exception

Adequacy of accounting records and information and explanations received
Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

Directors' remuneration
Under the Companies Act 2006 we are required to report to you if, in our opinion, certain disclosures of directors' remuneration specified by law are not made. We have no exceptions to report arising from this responsibility.

Entitlement to exemptions
Under the Companies Act 2006 we are required to report to you if, in our opinion, the directors were not entitled to take advantage of the small companies exemption from preparing a strategic report. We have no exceptions to report arising from this responsibility.

CAIRN UK HOLDINGS LIMITED

Independent auditors' report to the members of Cairn UK Holdings Limited (continued)

Responsibilities for the financial statements and the audit

Our responsibilities and those of the directors
As explained more fully in the Statement of Directors' Responsibilities set out on page 2, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) ("ISAs (UK & Ireland)"). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

What an audit of financial statements involves
We conducted our audit in accordance with ISAs (UK & Ireland). An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of:

- whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed;
- the reasonableness of significant accounting estimates made by the directors; and
- the overall presentation of the financial statements.

We primarily focus our work in these areas by assessing the directors' judgements against available evidence, forming our own judgements, and evaluating the disclosures in the financial statements.

We test and examine information, using sampling and other auditing techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Michael Timar (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Glasgow
30 March 2016

CAIRN UK HOLDINGS LIMITED

Income Statement

For the year ended 31 December 2015

	Notes	2015 US$m	2014 US$m
Administrative expenses	2	**(4.2)**	(8.5)
Operating loss	2	**(4.2)**	(8.5)
Gain on disposal of available-for-sale financial assets		**-**	3.9
Impairment of available-for-sale financial assets	5	**(318.6)**	(194.3)
Finance income	3	**11.6**	35.2
Finance costs		**(2.1)**	(1.5)
Loss before taxation		**(313.3)**	(165.2)
Taxation	4	**9.4**	45.4
Loss for the year		**(303.9)**	(119.8)

Statement of Comprehensive Income

For the year ended 31 December 2015

	Notes	2015 US$m	2014 US$m
Loss for the year		**(303.9)**	(119.8)
Other comprehensive income – items that may be recycled to profit and loss			
Deficit on valuation of financial asset	5	**(318.6)**	(261.1)
Deferred tax credit on valuation of financial asset		**9.4**	56.5
Valuation movement recycled to the Income Statement		**318.6**	189.1
Deferred tax credit on valuation movement recycled to Income Statement	4	**(9.4)**	(40.9)
Other comprehensive income for the year		**-**	(56.4)
Total comprehensive income for the year		**(303.9)**	(176.2)

CAIRN UK HOLDINGS LIMITED
Balance Sheet
As at 31 December 2015

	Notes	2015 US$m	2014 US$m
Non-current assets			
Available-for-sale financial assets	5	**384.0**	702.6
		384.0	702.6
Current assets			
Other receivables	6	**93.5**	89.2
		93.5	89.2
Total assets		**477.5**	791.8
Current liabilities			
Other payables		**0.5**	1.5
		0.5	1.5
Non-current liabilities			
Deferred tax liabilities	4	**-**	9.4
		-	9.4
Total liabilities		**0.5**	10.9
Net assets		**477.0**	780.9
Equity attributable to the owners of the parent			
Called-up share capital	7	**361.2**	361.2
Available-for-sale reserve		**-**	-
Retained earnings		**115.8**	419.7
Total equity		**477.0**	780.9

The financial statements on pages 6 to 19 were approved by the Board of Directors on 29 March 2016 and signed on its behalf by:

James Smith
Director

Registered No: SC304517

CAIRN UK HOLDINGS LIMITED

Statement of Cash Flows

For the year ended 31 December 2015

	2015 US$m	2014 US$m
Cash flows used in operating activities		
Loss before taxation	**(313.3)**	(165.2)
Gain on disposal of available-for-sale financial asset	**-**	(3.9)
Impairment of available-for-sale financial assets	**318.6**	194.3
Finance income	**(11.6)**	(35.2)
Finance costs	**2.1**	1.5
Trade and other payables movement	**(1.0)**	1.5
Net cash used in operating activities	**(5.2)**	(7.0)
Cash flows from investing activities		
Proceeds on disposal of available-for-sale financial assets	**-**	62.6
Dividend received	**-**	-
Net cash flows from investing activities	**-**	62.6
Cash flows from financing activities		
Inter-company lending	**5.2**	(55.6)
Net cash flows from/(used in) financing activities	**5.2**	(55.6)
Net movement in cash at bank	**-**	-
Opening cash at bank at beginning of year	**-**	-
Closing cash at bank	**-**	-

CAIRN UK HOLDINGS LIMITED

Statement of Changes in Equity

For the year ended 31 December 2015

	Called-up share capital US$m	Available-for-sale reserve US$m	Retained earnings US$m	**Total equity US$m**
At 1 January 2014	361.2	56.4	539.5	957.1
Loss for the year	-	-	(119.8)	(119.8)
Deficit on valuation of financial asset	-	(261.1)	-	(261.1)
Deferred tax credit on valuation of financial asset	-	56.5	-	56.5
Valuation movement recycled to Income Statement	-	189.1	-	189.1
Deferred tax credit on valuation movement recycled to Income Statement	-	(40.9)	-	(40.9)
Total comprehensive income for the year	-	(56.4)	(119.8)	(176.2)
At 1 January 2015	361.2	-	419.7	780.9
Loss for the year	-	-	(303.9)	**(303.9)**
Deficit on valuation of financial asset	-	(318.6)	-	**(318.6)**
Deferred tax credit on valuation of financial asset	-	9.4	-	**9.4**
Valuation movement recycled to the Income Statemen		318.6		**318.6**
Deferred tax credit on valuation movement recycled to Income Statement	-	(9.4)	-	**(9.4)**
Total comprehensive income for the year	-	-	(303.9)	**(303.9)**
At 31 December 2015	**361.2**	**-**	**115.8**	**477.0**

1 Significant Accounting Policies

a) Basis of preparation

The financial statements of Cairn UK Holdings Limited ("the Company") for the year ended 31 December 2015 were authorised for issue in accordance with a resolution of the directors on 29 March 2016. The Company is a limited company incorporated in Scotland and domiciled in the United Kingdom. The registered office is located at 50 Lothian Road, Edinburgh, Scotland.

The Company prepares its financial statements on a historical cost basis, unless accounting standards require and alternate basis. Where there are assets and liabilities calculated on a different basis, this fact is disclosed in the relevant accounting policy or notes to the financial statements. The accounting policies have been consistently applied to all the years presented. The financial statements comply with the Companies Act 2006 as applicable to companies using IFRS.

The Company's business activities, together with the factors likely to affect its future development, performance and position are set out in the Business Review on page 2. The financial position of the company, its liquidity position and borrowing facilities are presented in the financial statements and supporting notes. In addition, note 8 to the financial statements includes the company's objectives, policies and processes for managing its capital; its financial risk management objectives and details of its financial instruments; and its exposures to credit risk and liquidity risk.

b) Going concern

The Company has sufficient financial resources, through its receivable from Cairn Energy PLC, the parent undertaking, to allow the directors to have a reasonable expectation that the Company has adequate resources to continue in operational existence for a period of 12 months from the date of signing these financial statements. Thus they continue to adopt the going concern basis of accounting in preparing the annual financial statements.

In determining the ability of the Company to continue to operate as a going concern the directors have included the impact of the restriction on the sale of Cairn India shares and the subsequent receipt of the Indian Tax assessment (see note 11). Based on detailed legal advice supporting the strength of the Company's case under the arbitration, the directors are satisfied that preparing the financial statements on a going concern basis remains appropriate.

c) Accounting standards

The Company prepares its financial statements in accordance with applicable International Financial Reporting Standards ("IFRS"), issued by the International Accounting Standards Board ("IASB") as adopted by the EU, and interpretations issued by the IFRS Interpretations Committee ("IFRS IC") and Companies Act 2006 applicable to companies reporting under IFRS. The Group's financial statements are also consistent with IFRS as issued by the International Accounting Standards Board ("IASB") as they apply to accounting periods ended 31 December 2015.

Effective 1 January 2015, the Company has adopted the following standards:

- Annual improvements to IFRSs 2011-2013 Cycle

There was no impact on the results for the year as a result of adoption.

The following amendments to standards issued by the IASB and endorsed by the EU have yet to be adopted by the Company:

- Annual improvements to IFRSs 2010-2012 Cycle (effective 1 February 2015)
- Amendments to IFRS11: Accounting for Acquisitions of Interests in Joint Operations (effective 1 January 2016)
- Amendments to IAS 16 and IAS 38: Clarification of Acceptable Methods of Depreciation and Amortisation (effective 1 January 2016)
- Annual improvements to IFRSs 2012-2014 Cycle (effective 1 January 2016)
- Amendments to IAS 1: Disclosure Initiative (effective 1 January 2016)
- Amendments to IAS 27: Equity Method in Separate Financial Statements (effective 1 January 2016)
- Amendments to IAS 7: Statement of Cash Flows (effective 1 January 2017)

The adoption of these amendments will have no material impact on the Company's results or financial statement disclosures. There are no other standards or amendments issued by the IASB and endorsed by the EU that will impact the Company.

1 Significant Accounting Policies (continued)

d) Foreign currencies

These financial statements continue to be presented in US dollars (US$), the functional currency of the Company.

The Company translates foreign currency transactions into the functional currency at the rate of exchange prevailing at the transaction date. Monetary assets and liabilities denominated in foreign currency are translated into the functional currency at the rate of exchange prevailing at the Balance Sheet date. Exchange differences arising are taken to the Income Statement except for those incurred on borrowings specifically allocable to development projects, which are capitalised as part of the cost of the asset.

Rates of exchange to US$1 were as follows:

	Closing 2015	**YTD Average 2015**	Closing 2014	YTD Average 2014
Indian Rupee	**66.21**	**64.08**	63.04	61.01

e) Finance income
Dividend income is recognised on an accruals basis where the right to receive a payment is established. Dividend income is recognised within 'Finance income'.

f) Financial instruments
A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

Financial assets are categorised as financial assets held at fair value through profit or loss, held-to-maturity investments, loans and receivables and available-for-sale financial assets. The Company holds financial assets which are classified as either available-for-sale financial assets held at fair value and other receivables held at amortised cost.

Financial liabilities generally substantiate claims for repayment in cash or another financial asset. Financial liabilities are categorised as either fair value through profit or loss or held at amortised cost. All of the Company's financial liabilities are held at amortised cost, with the exception of derivative financial instruments which are held at fair value through profit or loss.

Financial instruments are generally recognised as soon as the Company becomes party to the contractual regulations of the financial instrument.

Available-for-sale financial assets
The Company's available-for-sale financial assets represent listed equity shares which are held at fair value (the quoted market price). Movements in the fair value during the year are recognised directly in equity and are disclosed in the Statement of Comprehensive Income. The cumulative gains or losses that arise on subsequent disposal of available-for-sale assets are recycled through the Income Statement.

At each reporting date, the fair value of the financial asset is compared to the value at the date of its initial recognition for signs of a prolonged or significant deficit in the valuation, which would indicate impairment. Where impairment is identified, cumulative losses recognised in Other comprehensive income are recycled to the Income Statement. In the event of a subsequent recovery in the valuation of the asset, there is no reversal of impairment; any such post-impairment gains are recognised as a surplus through Other comprehensive income. Any further impairment losses will be recognised through the Income Statement.

Other receivables
Other receivables (classified as loans and receivables under IAS 39) that have fixed or determinable payments that are not quoted on an active market are initially measured at fair value and then subsequently at amortised cost using the effective interest method less any impairment. Other receivables include dividends which are recognised on the ex-dividend date.

The carrying amounts of other receivables are tested at each reporting date to determine whether there is objective material evidence of impairment, for example overdue debt. Any impairment losses are recognised through the use of an allowance account. When a receivable is uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in the Income Statement or Balance Sheet in accordance with where the original receivable was recognised.

1 Significant Accounting Policies (continued)

g) Equity

Equity instruments issued by Cairn are recorded at the proceeds received, net of direct issue costs, allocated between share capital and share premium.

h) Taxation

The total tax charge or credit represents the sum of current tax and deferred tax. The current tax is based on taxable profit or loss for the year. Taxable profit or loss differs from net profit or loss as reported in the Income Statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit or loss. Deferred tax assets are recognised for deductible temporary differences that exist only where it is probable that taxable profits will be generated against which the carrying value of the deferred tax asset can be recovered. Deferred tax liabilities are recognised for all taxable temporary differences except in respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint operations where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

A deferred tax asset or liability is not recognised if a temporary difference arises on initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

Current and deferred tax is calculated using tax rates and laws that have been enacted or substantively enacted by the Balance Sheet date.

i) Significant accounting judgements, key estimations and assumptions

The Company has used accounting judgment, estimates and assumptions in arriving at certain figures within the financial statements. The resulting accounting estimates may not equate with the actual results which will only be known in time. Those areas believed to be key areas of estimation are noted below, with further details of the assumptions contained in the relevant note.

Impairment of Available-for-sale Financial Asset

The Company's ~10% shareholding in Cairn India Limited, classified as a non-current available-for-sale financial asset, suffered a significant fall in value during 2015. The size of the deficit was such that cumulative mark-to-market valuation movements recognised in "Other Comprehensive Income" and classified as an available-for-sale reserve in equity, were recycled to the Income Statement as impairment.

The closing book value of the asset represents the quoted market price of the Company's residual holding. Although the Company is currently not able to sell its 9.8% stake, there is no restriction in the wider market where Cairn India Limited shares trade freely at this price.

Contingent liability - taxation

The Company has received an assessment order from the Indian Income Tax Department relating to the intra-group restructuring undertaken in 2006 in the amount of US$1.6bn plus interest back dated to 2007 totalling US$2.8bn. The Company strongly contests the basis of this assessment, and is pursuing its rights under Indian law to appeal the assessment, and furthermore has commenced international arbitration proceedings, see note 11 for further details. The Company has not made any accounting provision in respect of the tax assessment.

2 Operating Loss

Administration expenses
Administration expenses of US$4.2m (2014: US$8.5m) represent costs incurred defending the Company's tax position in India.

Auditors Remuneration
The Company's auditors' remuneration for 2015 was US$25,816 (2014: US$12,186). Auditors' remuneration for other services is disclosed in the financial statements of Cairn Energy PLC, the ultimate parent undertaking.

The Company has a policy in place for the award of non-audit work to the auditors which, in certain circumstances, requires approval by the Audit Committee of Cairn Energy PLC, the ultimate parent undertaking. Details of this policy can be found on the Cairn Energy PLC website. No such costs were incurred by the Company during the year (2014: US$31,306).

Employees
This company has no employees (2014: none).

3 Finance Income

	2015 US$m	2014 US$m
Dividend income	**11.6**	35.2
	11.6	35.2

Dividend income is receivable from Cairn India Limited. See notes 5, 6 and 11.

4 Taxation

Analysis of tax credit in year

	2015 US$m	2014 US$m
Deferred tax:		
Indian deferred tax at 21.63% (2014: 21.63%) on valuation of financial asset	**(9.4)**	(45.4)
Tax credit on loss	**(9.4)**	(45.4)

A reconciliation of income tax expense applicable to the loss before income tax at the applicable tax rate to income tax expense at the Company's effective income tax rate is as follows:

	2015 US$m	2014 US$m
Loss before taxation	**(313.3)**	(165.2)
Tax at the standard rate of UK corporation tax of 20.25% (2014: 21.50%)	**(63.4)**	(35.5)
Effects of:		
Non-taxable income	**(2.4)**	(7.5)
Deferred tax asset not recognised	**60.3**	-
Non-deductible expenses	**0.5**	0.6
Impact of overseas tax rate	**(4.4)**	0.1
Temporary differences not recognised	**-**	0.3
Deferred tax on disposal of financial asset	**-**	(3.4)
Total tax credit	**(9.4)**	(45.4)

The UK main rate of corporation tax was 21% prior to 1 April 2015, and 20% from that date onwards. The reduction in the tax rate from 21% to 20% has resulted in an average rate of corporation tax of 20.25% for the year ended 31 December 2015, as shown above.

4 Taxation (continued)

Reconciliation of Deferred Tax Liability

	Total US$m
At 1 January 2014	(70.4)
Credit to Income Statement	45.4
Credit recognised in other comprehensive income on valuation of available-for-sale financial asset	56.5
Recycled from other comprehensive income on impairment of available-for-sale financial asset	(40.9)
At 31 December 2014	(9.4)
Credit to Income Statement	**9.4**
Credit recognised in other comprehensive income on valuation of available-for-sale financial asset	**9.4**
Recycled from other comprehensive income on impairment of available-for-sale financial asset	**(9.4)**
At 31 December 2015	**-**

At the balance sheet date there is no deferred tax liability in respect of the available-for-sale financial asset (2014: liability recognised of US$9.4m) as the tax base of the asset exceeds its carrying value due to the impairment of the asset in the current year. This has resulted in a deferred tax credit to the income statement of US$9.4m (2014: US$45.4m) in the period. No deferred tax asset has been recognised in respect of the tax base in excess of the carrying value of the available-for-sale financial asset of US$274.8m, expenses of management carried forward for future relief of US$4.9m (2014: US$nil), or non-trade finance deficits of US$3.7m (2014: US$nil) as it is not considered probable that these will be utilised in future periods.

5 Available-for-sale Financial Assets

	Listed equity shares US$m
As at 1 January 2014	1,027.6
Deficit on valuation	(261.1)
Disposal	(63.9)
As at 1 January 2015	702.6
Deficit on valuation	**(318.6)**
As at 31 December 2015	**384.0**

Available-for-sale financial assets represent the Company's remaining investment in the fully diluted share capital of Cairn India Limited, listed in India, which by its nature has no fixed maturity or coupon rate. These listed equity securities present the Group with an opportunity for return through dividend income or trading gains.

Movements in the fair value during the year are recognised directly in equity and are disclosed in the Statement of Comprehensive Income. The cumulative gain or loss that arises on disposal of available-for-sale financial assets is recycled through the Income Statement.

At 31 December 2015, the value of the investment in Cairn India Limited had fallen to US$384.0m. The significant accumulated deficit during 2015 of US$318.6m (2014: US$194.3m – the cumulative deficit from 1 July 2013 to 31 December 2014) was recycled to the Income Statement and recorded as impairment.

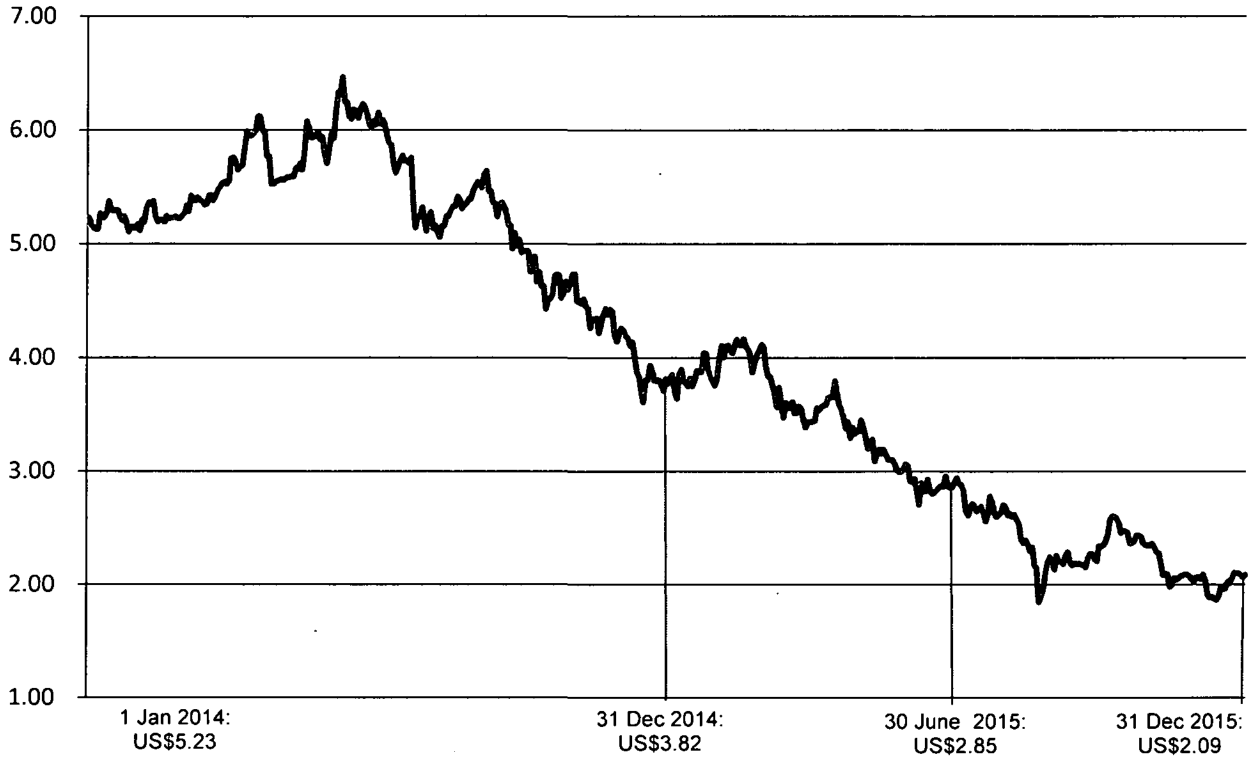
The Company is currently restricted from selling its shares in Cairn India Limited. See note 11. In January 2014, the Company disposed of 12,048,836 shares in Cairn India Limited, a 0.6% interest, prior to the restriction being enforced.

The Company is exposed to equity price risks arising from the listed equity investments it holds in Cairn India Limited.

5 Available-for-sale Financial Assets (continued)

Sensitivity analysis

At the year end the closing Cairn India Limited share price used to value the available-for-sale financial assets was INR 138.10 US$2.09 (2014: INR 240.55/US$3.82). The movement in the Cairn India Limited share price over the current and prior year is as follows:



The sensitivity analysis below has been determined based on the exposure to equity price risks at the reporting date, assuming all other variables are held constant. Sensitivities have been run based on the highest and lowest share prices measured in the preceding 12-month period and on decreases of 10%, 20% and 30% on the share price at 31 December 2015. Those prices are determined using the closing INR share price converted to US$ at the daily rate.

As at 31 December 2015	**Effect on loss for year US$m**	**Effect on Equity US$m**
Increase to the highest share price in 2015 – INR 259 (US$4.17)	**-**	**359.5**
Decrease of 10% on closing share price in 2015 - INR 124 (US$1.88)	**(38.4)**	**(38.4)**
Decrease to the lowest share price in 2015 - INR 123 (US$1.84)	**(45.2)**	**(45.2)**
Decrease of 20% on closing share price in 2015 - INR 110 (US$1.67)	**(76.8)**	**(76.8)**
Decrease of 30% on closing share price in 2015 - INR 97 (US$1.46)	**(115.2)**	**(115.2)**

As at 31 December 2014	Effect on loss for year US$m	Effect on Equity US$m
Increase to the highest share price in 2014 – INR 383 (US$6.46)	-	382.2
Decrease to the lowest share price in 2014 - INR 229 (US$3.61)	(30.0)	(30.0)
Decrease of 10% on closing share price in 2014 - INR 216 (US$3.43)	(60.8)	(60.8)
Decrease of 20% on closing share price in 2014 - INR 192 (US$3.05)	(131.1)	(131.1)

6 Other Receivables

	2015 US$m	2014 US$m
Other receivables	**43.1**	33.6
Amounts receivable from parent company	**50.4**	55.6
	93.5	89.2

Other receivables include dividends receivable of US$43.1m, INR: 2.9bn (2014: US$33.6m, INR 2.1bn) from Cairn India Limited. While the restriction over Cairn's investment remains, Cairn India Limited is unable to remit these dividends to the Group. See notes 5 and 11.

7 Called-up Share Capital

	2015 £1 Ordinary Number	2014 £1 Ordinary Number	2015 £1 Ordinary US$m	2014 £1 Ordinary US$m
Allotted, issued and fully paid ordinary shares				
At 1 January and 31 December	**186,537,131**	186,537,131	**361.2**	361.2

8 Financial Risk Management: Objectives and Policies

The main risks arising from the Company's financial instruments are liquidity risk, foreign currency risk, and market risk arising from equity price fluctuations, see note 5. The Board of the Company's ultimate parent company, Cairn Energy PLC through the Treasury Sub-Committee, reviews and agrees policies for managing each of these risks and these are summarised below.

The Group's treasury function, at Cairn Energy PLC, and Executive Team as appropriate are responsible for managing these risks, in accordance with the policies set by the Board. Management of these risks is carried out by monitoring of cash flows, investment and funding requirements using a variety of techniques. These potential exposures are managed whilst ensuring that the Company and the Group have adequate liquidity at all times in order to meet their immediate cash requirements. There are no significant concentrations of risks unless otherwise stated. The Group does not enter into or trade financial instruments, including derivatives, for speculative purposes.

The primary financial assets and liabilities of the Company comprise cash, listed equity shares (Cairn India Limited only), intra-group loans and other receivables and financial liabilities held at amortised cost. Cairn Energy PLC's strategy has been to finance the operations of subsidiaries through a mixture of retained profits and bank borrowings. Other alternatives such as equity issues and other forms of non investment-grade debt finance are reviewed by the Cairn Energy PLC Board, when appropriate.

Liquidity risk
Cairn Energy PLC closely monitors and manages the liquidity risk of its subsidiaries using both short and long-term cash flow projections, supplemented by debt and equity financing plans and active portfolio management. Cash forecasts are regularly produced and sensitivities run for different scenarios including, but not limited to, changes in and delays of development projects. The forecasts show that the Group will be able to operate within its current debt facilities and have financial headroom for the 12 months from the date of approval of the Cairn Energy PLC 2015 Annual Report and Accounts.

Surplus cash is invested in a combination of money market liquidity funds, notice accounts and term deposits with a number of international and UK financial institutions, ensuring sufficient liquidity to enable the Cairn Energy PLC Group and its subsidiaries to meet its short and medium-term expenditure requirements.

Foreign currency risk
The Company manages exposures that arise from non-functional currency receipts and payments by matching receipts and payments in the same currency and actively managing the residual net position. Where residual net exposures do exist and they are considered significant to the Company, the Group may from time to time opt to use derivative financial instruments to minimise the exposure to fluctuations in foreign exchange and interest rates.

8 Financial Risk Management: Objectives and Policies (continued)

Capital Management
The Group's treasury function monitors the long-term cash flow requirements of the business in order to assess the requirement for changes to the capital structure to meet that objective and to maintain flexibility.

The Company manages the capital structure and makes adjustments to it in light of changes to economic conditions. To maintain or adjust the capital structure, the Company may issue shares for cash, put in place new debt facilities or other such restructuring activities as appropriate. No significant changes were made in the objectives, policies or processes during the year ended 31 December 2015.

Company capital and net debt were made up as follows:

	31 December 2015 US$m	31 December 2014 US$m
Other payables	**0.5**	1.5
Net debt	**0.5**	1.5
Equity	**477.0**	780.9
Capital and net debt	**477.5**	782.4
Gearing ratio	**0.12%**	0.19%

9 Financial Instruments

The Company calculates the fair value of assets and liabilities by reference to amounts considered to be receivable or payable on the Balance Sheet date. The Company's financial assets and liabilities, together with their fair values are as follows:

Financial assets

	Carrying amount		Fair value	
	31 December 2015 US$m	31 December 2014 US$m	**31 December 2015 US$m**	31 December 2014 US$m
Available-for-sale financial assets	**384.0**	702.6	**384.0**	702.6
Other receivables	**43.1**	33.6	**43.1**	33.6
Amounts receivable from parent company	**50.4**	55.6	**50.4**	55.6
	477.5	791.8	**477.5**	791.8

The receivables above are current and unimpaired.

The fair value of financial assets has been calculated by discounting the expected future cash flows at prevailing interest rates.

Fair value
The Company holds listed equity shares as a non-current available-for-sale financial asset. The Company determines and discloses the fair value of these by reference to the quoted (unadjusted) prices in active markets for those shares at the measurement date.

At 31 December the Company held the following financial instruments measured at fair value:

Assets measured at fair value – Level 1	**2015 US$m**	2014 US$m
Available-for-sale financial assets		
Equity shares - listed	**384.0**	702.6
	384.0	702.6

10 Related Party Transactions

The following table provides the balances which are outstanding with the Group companies at the Balance Sheet date:

	31 December 2015 US$m	31 December 2014 US$m
Amounts receivable from parent company	**50.4**	55.6
	50.4	55.6

The amounts outstanding are unsecured, repayable on demand and will be settled in cash.

Remuneration of key management personnel and directors
The directors of the Company are also directors of other companies in the Cairn Energy PLC group. The directors received remuneration for the year of US$2.5m (2014: US$4.8m) and pension contributions of US$0.2m (2014: US$0.4m) all of which was paid by other companies in the group. The directors do not believe that it is practicable to apportion this amount between their services as directors of the Company and their services as directors of Cairn Energy PLC and fellow subsidiary companies. There are no agreements between the Company and the Board of Directors.

Other transactions
During the year, the Company's parent company Cairn Energy PLC, issued invoices to the Company of US$3.5m (2014: US$7.1m), and Capricorn Energy, a fellow subsidiary of the Company, issued invoices to the Company of US$1.7m (2014: nil).

11 Contingent Liability

The Company has received an assessment order from the Indian Income Tax Department ("IITD") relating to the intra-group restructuring undertaken in 2006 prior to the IPO of Cairn India Limited ('CIL') in India, which cites a retrospective amendment to Indian tax law introduced in 2012. The Company strongly contests the basis of this attempt to retrospectively tax the group for an internal restructuring.

The assessment order is in the amount of INR102billion (approximately US$1.6bn) plus interest back dated to 2007 totalling INR 188bn (approximately US$2.8bn). The total assets of the Company have a current value of US$477.5m (comprising principally the group's 9.8% shareholding in CIL) and any recovery by the Indian authorities would be limited to such assets.

The Company is pursuing its rights under Indian law to appeal the assessment, both in respect of the basis of taxation and the quantum assessed. The 9.8% shareholding in CIL was originally attached by the IITD in January 2014 and the Company continues to be restricted by the IITD from selling such shares. See note 5.

Furthermore, the Company has also commenced international arbitration proceedings against the Republic of India under the UK-India Bilateral Investment Treaty (the "Treaty"), on the basis that India's actions have breached the Treaty by (1) expropriating the Company's property without adequate and just compensation, (2) denying fair and equitable treatment to the Company in respect of its investments and (3) restricting the Company's right to freely transfer funds in connection with its investment. Based on detailed legal advice, the Company is confident that it will be successful in such arbitration. The Company's claim will seek relief by way of indemnification in respect of the tax demand, plus full compensation for its losses (including the loss of the value in the CIL shares).

12 Ultimate Parent Company

The Company is a subsidiary of Cairn Energy PLC, registered in Scotland, whose principal place of business is at 50 Lothian Road, Edinburgh, EH3 9BY.

Copies of Cairn Energy PLC's financial statements are available to the public and may be obtained from the above mentioned address.